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SPERI British Political Economy Brief No. 24

# UK regions and European structural and investment funds.

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## Introduction

In advance of the referendum on the UK's membership of the European Union (EU), this Brief considers the distribution of EU 'structural and investment funds' to the UK's constituent regions and nations. The regional dimension of the UK/EU relationship has received relatively little attention in the public debate around the implications of 'Brexit' with much of the attention focusing on whether the UK as a whole will be 'better off' or 'worse off' as a result of voting to exit or remain within the EU. Further, whilst the UK's financial contribution to the EU has been widely debated there has been considerably less attention on the funding that the UK receives *from* the EU, and *how* that funding is distributed. Analysis of the regional distribution of EU structural and investment funds suggests that the possible implications of Brexit would vary across the UK's constituent regions and nations, which experience significantly different economic and social inequalities and have a high degree of variation in their economic performance. The Brief highlights a series of key questions relating to the future of European structural and investment funds that require examination in advance of the referendum, and that policymakers would need to swiftly address should the UK vote to leave the European Union on June 23rd.

## Background

- European structural and investment funds (hereafter 'structural funds') support economic development across EU member states and their constituent regions. Structural funds have existed since the 1970s, with the aim of reducing economic and social inequalities between the EU's regions and nations.
- EU structural funds are comprised of five funds: European Regional Development Fund (ERDF); European Social Fund (ESF); Cohesion Fund; European Agricultural Fund for Rural Development; and the European Maritime and Fisheries Fund (EMFF).
- The current total budget for EU structural funds is €454bn and the majority of funds are allocated to three funds: ERDF, ESF and the Cohesion Fund. The European Commission states that:
  - The ERDF 'aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions'.
  - The ESF 'invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty.'
  - The Cohesion Fund 'aims to reduce economic and social disparities and to promote sustainable development' in EU member States whose Gross National Income per capita is less than 90 % of the EU average.
- The majority of EU structural funding that the UK receives is from the ERDF and ESF. The UK does not receive funding from the Cohesion Fund.
- Funding goes to projects that support current priority investment areas. The current four priority investment areas for ERDF funding are: innovation and research; the digital agenda; support for small and medium-sized enterprises

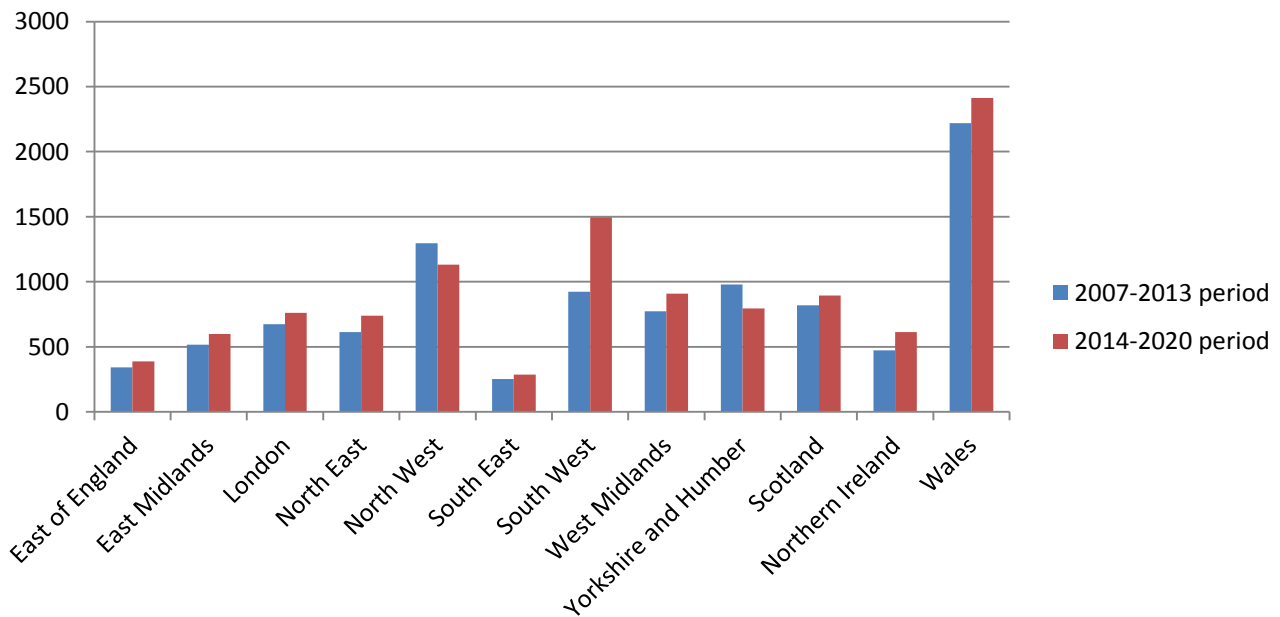
(SMEs) and the low-carbon economy. The current four priority investment areas for ESF funding are: promoting employment and supporting labour mobility; promoting social inclusion and combating poverty; investing in education, skills and lifelong learning, and enhancing institutional capacity and an efficient public administration.

- EU structural funding rounds are comprised of seven year periods. The current funding round runs between 2014 and 2020 but funds allocated to projects before 2020 can be spent until 2023.
- The European Commission allocates notional funding for regions with the 28 member states which are categorised according to their per capita Gross Domestic Product (GDP) as either 'less developed', 'transition' or 'more developed'.
- The biggest amount of structural funding goes towards 'less developed' regions which have a per capita GDP of less than 75 per cent of the EU average. This status applies to two UK regions: Cornwall and the Isles of Scilly, and West Wales and the Valleys.
- 'Transition regions' have a per capita GDP between 75 and 90 percent of the EU average. This status applies to eleven UK regions: Cumbria, Devon, East Yorkshire and Northern Lincolnshire, Highlands and Islands, Lancashire, Lincolnshire, Merseyside, Northern Ireland, Shropshire and Staffordshire, South Yorkshire, Tees Valley and Durham.
- 'More developed' regions have a per capita GDP above 90 percent of the EU average. This status applies to the remaining regions of the UK.
- Whilst the EU calculates notional structural funding amounts for different regions, the funding is then provided to member states who have powers and freedoms to determine how and where it is spent, and the mechanisms for allocating funding within their domestic regions to specific projects.
- In the UK the devolved administrations in Wales, Scotland and Northern Ireland have responsibility for allocating structural funding to projects. In England, prior to 2010, Regional Development Agencies (RDAs) were responsible for allocating structural funding. The coalition government abolished RDAs in 2010 and for the 2014-2020 funding period Ministers made the decision to notionally allocate funding according to local enterprise partnership (LEP) areas. Responsibility for then allocating funding within the 39 LEP areas rests with government departments (BIS, DCLG) and LEPs.
- Structural funds work through a logic of 'additionality'; i.e. that they are given in addition to any domestic regional development funding. EU member states cannot therefore use these funds as an excuse to cut domestic funding and so structural funds provide net investment to regions. In addition, ERDF and ESF funding must be 'match-funded' by either through central government department funds, Local Authority funds or by private and third sector organisations. This means that the total investment to regions is greater than just the funding provided by the EU.

## Evidence

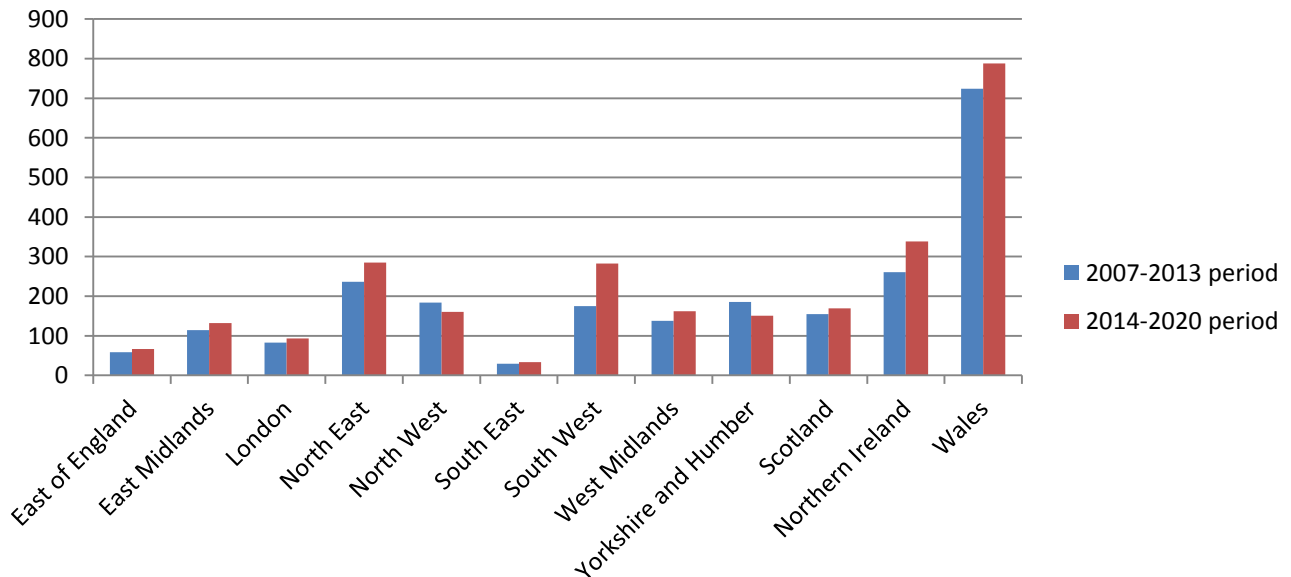
- This Brief focuses on ERDF and ESF funding that the UK's regions and constituent nations received during the 2007-2013 funding round, and that the regions and nations have been allocated for the current 2014-2020 funding round.

**Figure 1. Combined ERDF and ESF allocations by region (€m)**

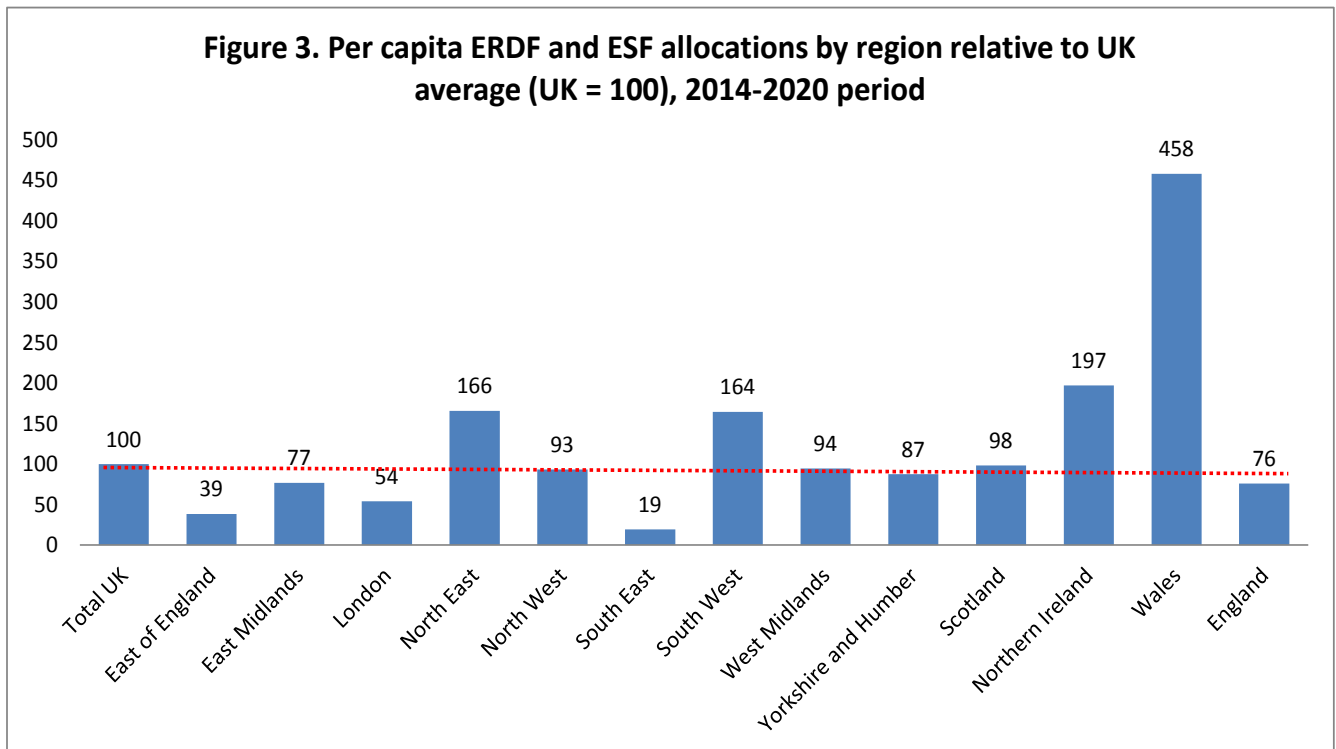


- Wales and the South West are the two regions which will receive the highest allocations in absolute terms between 2014-2020 because they contain within them the 'less developed' sub-regions of 'Cornwall and the Isles of Scilly' and 'West Wales and the Valleys'.
- The effect of having the 'less developed' region status is demonstrated by considering the West Wales and the Valleys sub-region which will receive €2,006 million of the total €2,413 million that Wales will receive.
- Figure 1 demonstrates that the poorest regions tend to receive more in EU structural funds in absolute terms than richer regions. For example, in the current round of funding Wales will receive €2,413 million whilst the South East region will receive €286 million. Wales therefore will receive over eight times the amount of structural funding as the South East in absolute terms. Data showing the allocation for each region is provided in Annex 1.
- Yorkshire and the Humber and the North West are the only two regions that will receive a decrease in their funding in absolute terms between 2014-2020 relative to the funding they received between 2007-2013. The decreases are in part due to funding allocation decisions made by the UK government which are considered further in the Analysis section.

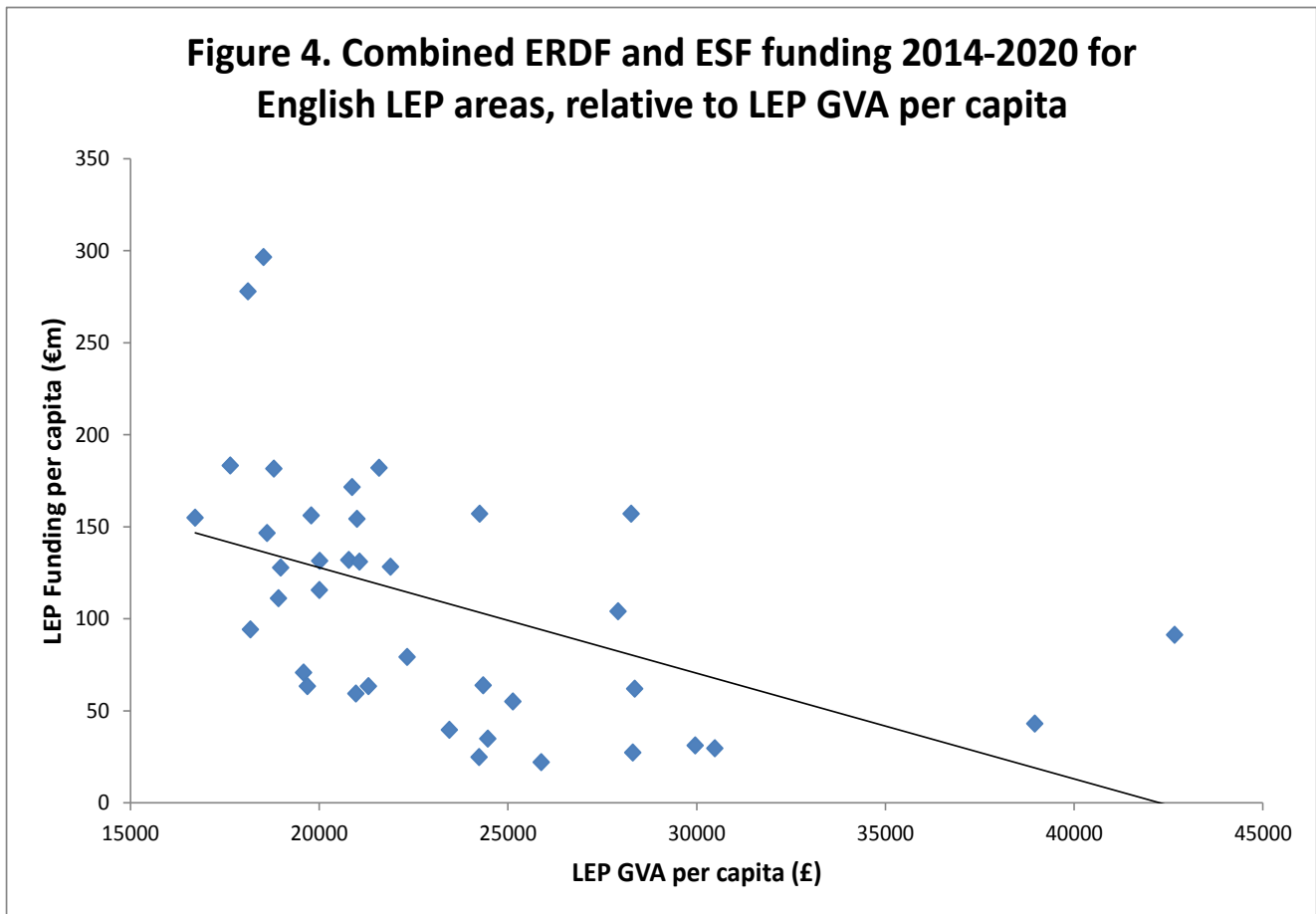
**Figure 2. Per capita combined ERDF and ESF allocations by region (€)**



- Figure 2 highlights the significant differences in funding received by the different regions when population differences are taken into account, that is when funding is measured on a per capita basis. It further demonstrates the importance of structural funding to the regions that contain within them 'less developed' sub-regions (Wales and the South West).
- Measuring funding allocations on a per capita basis also highlights the importance of structural funding to Northern Ireland and the North East. In absolute terms Northern Ireland and the North East will receive less funding between 2014-2020 than the North West, London, West Midlands, Yorkshire and Humber and Scotland, but will receive more funding per capita due to their smaller populations.
- The UK's wealthiest regions, London, the South East and East of England, will receive the lowest levels of per capita funding between 2014-2020.
- The decrease in absolute funding, highlighted above, between 2007-2013 and 2014-2020 for the North West and Yorkshire and Humber is reflected in per capita decreases for the two regions.



- Figure 3 further demonstrates the relative importance of structural funding to Wales, Northern Ireland, the South West and the North East, all of which will receive higher per capita structural funding between 2014-2020 than the UK average.
- London, the South East and East of England will all receive lower per capita funding than the UK and English regional average. All regions in the North of England and Midlands will receive higher per capita funding than the English regional average.
- The three regions in the North of England (North West, North East and Yorkshire and Humber) will receive on average 15 per cent per capita more in terms of EU structural funding than the UK average. London and the South East, by contrast, will receive EU structural funding per capita at 36 per cent of the UK average.



- Each data point in Figure 4 represents one of England's 39 Local Economic Partnership areas (LEPs). It plots the amount of EU structural funding per capita that each LEP area will receive between 2014-2020 against per capita Gross Value Added (GVA) of each area. Gross Value Added (GVA) is an indicator used to measure economic output.
- LEP areas which will receive higher levels of EU structural funding tend to have lower levels of economic output. This further confirms the regional trend outlined above: generally poorer areas are more likely to receive higher levels of EU structural funding.
- There is a clear North-South divide in England in terms of those areas which receive higher levels of EU structural funding and those which receive lower levels of structural funding. The exception to this divide is Cornwall which is the poorest region in England.
- Seven of the ten LEP areas with the highest EU structural funding allocations for 2014-20 are in the North of England. Cornwall and the Isles of Scilly is one of the other three. Conversely, all of the ten LEP areas with the lowest EU structural funding allocations for 2014-20 are in the South of England (and none are in the South West region).



- It should be noted that the Cornwall and the Isles of Scilly LEP is excluded from the data presented on Figure 4. As can be seen in Annex 2, this LEP area receives the highest level of EU structural funding. It will receive €1,104 per capita in terms of the current spending round, over three times higher than the LEP which receives the second highest amount of EU structural funding (Tees Valley, €297 per capita).

## Analysis

### Uneven distribution:

- The evidence presented above shows that EU structural funds are distributed in an uneven manner across the UK regions. In particular, poorer regions tend to receive more in EU structural funds whilst richer regions tend to receive less.
- If the UK were to leave the EU, the issue of whether the UK would continue to receive EU structural funds would be uncertain. The evidence suggests that the loss of EU structural funds would disproportionately affect certain regions - in particular Wales, Northern Ireland, the South West and the North East.

### Economic impact:

- The loss of EU structural funds could have a significant impact on job creation and business activity. Ministerial answers to recent parliamentary questions (links provided in the Sources section) reveal that in Wales projects funded through the ERDF are estimated to have created 36,640 new jobs and 11,900 new businesses from the start of the 2007-2013 programmes to the end of February 2016. In Scotland over the same period ERDF projects are estimated to have created 44,311 new jobs and 17,474 new businesses. Across the North of England the corresponding job creation figures are 20,149 (Yorkshire and Humber), 20,602 (North East), and 29,795 (North West); and new business estimates are 2,748 (Yorkshire and the Humber), 5,888 (North East) and 9,582 (North West).
- The above job and business creation figures demonstrate the long term economic impact of EU structural funding. The impacts of projects that receive funding during one funding round may not be felt for several years.
- 1537 projects in the UK received funding from the ERDF between 2007-2013. The full list is available in Annex 3.
- The requirement for ERDF and ESF funding to be 'match-funded' (i.e. structural funds only provide 50% of total investment to any specific project) mean that the potential economic impact of losing structural funds would not simply relate to the loss of funds provided by the EU. Many funding partners, particularly from the private sector, but also central government departments, may choose not to invest in projects without the security of knowing that 50% of the funding was being provided through EU structural funds.

**Local government:**

- Since 2010 the coalition and Conservative governments have significantly reduced funding for local government. As a result, local authorities have made severe budget cuts to non-statutory services and functions, such as local and regional economic development. In this context of austerity politics EU structural funds are arguably of greater importance to regional economic development strategies than in previous periods as councils are less likely to be able to directly support projects themselves.
- The seven year structural funding rounds allow local authorities to plan for the medium-term beyond the annual local government funding settlement, four year comprehensive spending reviews and five year general election cycles. This allows local and regional policymakers to work with the private and third sectors to plan economic projects with a greater degree of certainty about funding compared to projects that are more reliant on domestic sources of public investment.

**The role of national government in allocating funding:**

- As the Evidence section has shown, Yorkshire and the Humber and the North West are the only two regions that will receive a decrease in their funding in absolute terms between 2014-2020 relative to the funding they received between 2007-2013. This is in part due to decisions taken in Whitehall and not in Brussels, and highlights the rarely appreciated central role of national governments in allocating EU structural funds.
- In 2014 nine local authorities (four in South Yorkshire and five in Liverpool city region) challenged the coalition government's regional allocation of EU structural funds for 2014-2020 in the High Court. The local authorities argued that UK Ministers had used a flawed methodology to calculate notional funding allocations for English LEP areas which would see South Yorkshire and Merseyside receive significantly less money than the European Commission had intended. The High Court ruled against the government and the court's judgement confirmed that the government's funding allocations for South Yorkshire and Merseyside were both over €90m less than the EU intended. The Government subsequently appealed the ruling and in February 2015 the Supreme Court overturned it to uphold the government's original funding allocations and confirm Ministers' discretionary powers to allocate EU structural funding.
- In making the legal challenge politicians in South Yorkshire and Merseyside argued that whilst their areas were facing large reductions in their funding (South Yorkshire saw a 60% reduction in funding), the government's new methodology had seen more affluent parts of England receive funding increases and that Ministers had limited funding cuts to the devolved administrations of Scotland, Wales and Northern Ireland to just 5%.
- Much of the discussion around EU funding to the UK's regions and devolved nations misses the central role that domestic politicians in Whitehall have in allocating EU structural funds.

## Key Questions

In light of the above evidence and analysis, if the UK were to vote to leave the EU, a number of key questions about structural funding, which is of course conditional to EU membership, emerge. These include:

- What would the status of EU structural funding already allocated to the UK for the 2014-20 period be if there is a 'leave' vote?
- Would funding be frozen during the period of negotiation between the UK and EU that would follow a 'leave' vote, or withdrawn immediately?
- If the European Union does seek to 'clawback' structural funding that has been allocated to the UK for the 2014-2020 period would this apply to a) allocated but as yet unspent funding b) funding that has been already been spent, and c) both spent and unspent funds?
- Would any funding clawback also apply retrospectively to UK projects that are currently operational using structural funds allocated during the 2007-2013 funding round?
- What assessments have been made about the impact of losing structural funds on economic growth, output, and employment?
- What would be the legal consequences arising from a loss of structural funds? Would the UK government compensate public bodies and businesses for a loss of access to future EU structural funds, and would they be required to by law? If funding is 'clawed back' would the UK government be liable to pay compensation to projects and involved organisations that lose funding?
- If EU structural funding were to be withdrawn, would the UK government adopt a similar regional development programme?
- If so, where would the funding come from and would the existing allocated structural fund budget be matched in absolute terms by the UK government? Would any new programme have the same priority areas of focus as EU structural funds?
- The EU structural funding programmes currently allow for long-term planning over a seven year period. Would a UK government commit to a similar seven year funding structure or would this change?

## Conclusion

Existing debates on the EU referendum have tended to focus on the impact which 'Brexit' might have on the UK as a whole without examining the regional impact of such an event. This Brief has examined the distribution of EU structural funds across the UK and shown how EU funding is core to the political economy of local economic development in the UK. It has further demonstrated how structural funds are distributed unevenly across the UK's regions. At both the regional and LEP levels, poorer areas tend to receive a larger proportion of these funds than richer areas in both per capita and absolute terms. There is also a regional divide

which is worth examining further: the North of England, Wales and the South West receive more in EU structural funds than more prosperous regions in the south and east of England. This means that if there was a vote to leave the EU, poorer areas of the UK would be more vulnerable to any negative economic impacts arising from the loss of structural funding.

The range of key questions that emerge from this analysis highlight the need for far greater attention to be paid to the structural funding that the UK receives from the EU than has been the case in existing debates. These questions should form a central part of the remainder of debates before the referendum on June 23rd. The answers will be crucial to both informing voters about the impact of a vote to 'leave' or 'remain' and to 'post-Brexit' discussions and negotiations should the UK vote to leave the EU. It is particularly incumbent on those advocating a 'leave' vote to outline how they would answer these questions and what guarantees they would make regarding future regional economic development funding.

### Sources

- The EU structural fund allocation data in this Brief has been taken from ministerial answers to parliamentary questions regarding structural fund allocations.
  - <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-04-08/33071/>
  - [http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130703/text/130703w0003.htm#130703w0003.htm\\_wqn31](http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130703/text/130703w0003.htm#130703w0003.htm_wqn31)
  - <http://parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-03-22/32053/>
- 2011 census population data, used to calculate per capita results, is available at <http://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/2011censuspopulationandhouseholdestimatesfortheunitedkingdom>
- GVA data by LEP was taken from the ONS, available at: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/gvaforlocalenterprisepartnerships>
- Population data by Local Enterprise Partnership (LEP), available at: <https://www.gov.uk/government/statistical-data-sets/rural-statistics-local-level-data-sets>
- ERDF job and business creation estimates were provided in ministerial answers to parliamentary questions tabled in April 2016: <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?house=commons%26clords&max=20&member=420&page=1&questiontype=AllQuestions>

## Annex I:

## Data on EU structural funds by region, 2007-2013 and 2014-2020

	2007-2013	2014-2020
	Combined ERDF and ESF allocations (€m)	
East of England	341	387
East Midlands	516	598
London	673	762
North East	614	739
North West	1297	1132
South East	252	286
South West	923	1495
West Midlands	772	909
Yorkshire and Humber	979	794
Scotland	820	895
Northern Ireland	472	613
Wales	2218	2413
England	6369	6937
Total UK	9880	10858

	Per capita combined ERDF and ESF allocations (€m)	
East of England	58	66
East Midlands	114	132
London	82	93
North East	237	285
North West	184	161
South East	29	33
South West	175	283
West Midlands	138	162
Yorkshire and Humber	185	150
Scotland	155	169
Northern Ireland	261	338
Wales	724	788
England	120	131
Total UK	156	172

## Annex II:

## Structural Funds allocations to Local Enterprise Partnership area 2014 to 2020

LEP Allocation	€m
Black Country	176.6
Buckinghamshire Thames Valley	13.8
Cheshire and Warrington	141.6
Coast to Capital	67
Cornwall and the Isles of Scilly	590.4
Coventry and Warwickshire	135.5
Cumbria	91
Derby, Derbyshire, Nottingham and Nottinghamshire	244
Dorset	47.1
Enterprise M3	45.5
Gloucestershire	38.1
Greater Birmingham and Solihull	254.8
Greater Cambridge & Greater Peterborough	75.2
Greater Lincolnshire	133
Greater Manchester	413.8
Heart of the South West	117.8
Hertfordshire	69.2
Humber	102
Lancashire	265.2
Leeds City Region	389.5
Leicester and Leicestershire	125.7
Liverpool City Region	220.9
London	745.4
New Anglia	94.1
North Eastern	537.4
Northamptonshire	54.8
Oxfordshire	19.3
Sheffield City Region	207.2
Solent	42.9
South East	185.1
South East Midlands	87.9
Stoke-on-Trent and Staffordshire	160.9
Swindon and Wiltshire	43.4
Tees Valley	201.7
Thames Valley Berkshire	28.5
The Marches	113.3
West of England	68.3
Worcestershire	67.8
York and North Yorkshire	97.1

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## Annex III:

### EU structural funded projects in the UK's regions

- 1537 UK Projects received funding under the European Regional Development Fund Programmes between 2007-2013. The full list can be found at: <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-12-15/20288/>
- Specific examples include:
  - Employability: Bradford City Council received £1.1m to help coach the long-term unemployed, those with disabilities or from deprived communities to help them find work or to create new start-up businesses; Kirklees received £2.1m to coach school children in entrepreneurship to encourage more into business after leaving.
  - Innovation: Port of Sunderland received £1m for the redevelopment with a low carbon business hub; Gateshead received £1.7m to create office space for high-tech SMEs and start-ups in high growth industries; University of Liverpool received £10.2m for its Bio-Innovation Centre.
  - Infrastructure: £0.6m for developments in Blackburn City Centre, £2.6m to modernise Rotherham Train Station; £5.4m upgrading access to Doncaster City Centre from the M1.



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